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FINANCIAL DIGEST

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THE TURNING POINT

In three critical areas, the U.S. economy appears to have reached a turning point. Real output has turned down once again, following the third quarter's rise. Money-market interest rates seem to have passed their inflection point, too, and may well retreat from here on. And it is even possible to discern the first break in the inflation rate, suggesting that the pace at which consumer prices will rise in the months ahead may well be slower than the average monthly rise recorded this year.

With consumer spending, housing starts, and new orders for factory durable goods all down sharply in October, and no evidence whatsoever that these trends changed in November, there is little doubt that the real GNP has turned downward in the fourth quarter. The only question might be by how much. Unless consumers repeat last year's Holiday buying explosion, current trends and attitudes may well take the real GNP down by an annual rate of three per cent or more compared with the third quarter.

You can see it in the trend of new car sales. After bouncing up to a seasonally adjusted annual selling rate of 8.6 million units in the third quarter, sales of new domestically produced automobiles have since fallen to a 7.3 million unit clip. If this pace is maintained over the balance of the quarter, it would be the lowest for any calendar quarter since second-quarter 1975, when the economy was just emerging from recession.

While industrial output held steady in October, that result did not reflect November's cutbacks in production schedules announced by Detroit for motor vehicles and parts. The new production schedules for November represent a drop of nearly 18 per cent from October, seasonally adjusted. This alone translated into a significant decline in total industrial output during November: Every 16 per cent drop in vehicle assemblies corresponds to a one per cent drop in the production index.

Partly as a reflection of this turndown in economic activity, short-term interest rates have begun to decline as well. Even before several banks announced cuts in their prime lending rate last week, it had become evident that interest rates had reached a peak for the current cycle (Financial Digest—November 5, 1979). Such key money-market interest rates as those on Treasury bills, Federal funds, and 30-day commercial paper have been declining, on balance, since the beginning of November.

From a supply and demand standpoint, these declines make sense. The Federal Reserve has apparently succeeded in getting the money supply to grow within its target ranges established earlier this year (Financial Digest—November 19, 1979). This implies that the Fed has been able to stop withdrawing reserves from the banking system, thus putting less downward pressure on the money stock. As far as demand is concerned, loans booked by weekly reporting commercial banks have declined sharply since early October. Whether this drop is due to business willingly borrowing less or being forced to by the banks, the fact remains that the demand for short-term bank credit is down. As long as the money supply doesn't grow faster than the Fed wants and demand continues to slacken, short-term interest rates will keep sliding, since the Federal Reserve has said that it plans to pay less attention to money market conditions and more to bank reserves and the money supply.

It may be stretching things a bit, but it is even possible to detect a turn in the rate of inflation. For all of its faults (Financial Digest—October 1, 1979), the consumer price index may have reached its peak in terms of monthly percentage increases. Not that October's one per cent rise represents a significant slowing from the 1.1 per cent average monthly increase recorded in the first nine months of this year. Rather, the fact that two thirds of the increase traced to one sector: the housing component. Because the CPI significantly overstates the cost of shelter, it is useful to look at what the balance of the index did. All items less shelter rose by 0.6 per cent in October, down from the 0.9 per cent average of the previous ten months, and the lowest monthly rise since November, 1978.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures – Millions of Dollars)

	Week Ending 11/28/79	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	123,453	— 814	+ 3,551
Member Bank Borrowings	2,021	+ 156	+ 1,230
Float	7,470	+ 244	— 132
Total Reserve Bank Credit	138,114	— 408	+ 7,413
Treasury Deposits with Federal Reserve Banks	3,098	— 117	— 3,370
Currency Outside Banks	111,670	— 29	+ 9,643
Member Bank Reserves:			
Required	42,887	— 404	+ 1,535
Excess (Deficiency)	57	— 58	+ 17
Total Reserves Held	42,944	— 462	+ 1,552
Net Borrowed Reserves	1,828	+ 229	+ 1,257
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	74,473	—2,564	—17,382
		r-Revised	
	11/21/79		
Money Supply ($ Bil., SA) M1	379.8	+ 1.3	+4.9%
Money Supply ($ Bil., SA) M2	944.5	+ 1.0	+7.9%

NEW YORK MONEY MARKET

Offering Rates 11/30/79	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.38%	11.31%	10.77%
*Federal Agencies	12.28	12.15	11.50
*Project Notes—Tax Free (46% Taxable Equivalent)	6.50	6.25	n.a.
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	13.20	13.30	

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	10.12%	Dec.	12.25%
15- 29 days	10.50	Jan.	12.60
30- 59 days	12.00	Feb.	12.60
60- 89 days	12.25	Mar.	12.55
90-270 days	11.25	Apr.	12.50
		May	12.40
‡Industrial Paper—Prime			
30- 89 days	12.00%	†Federal Funds Effective Rate	13.70%
90-120 days	12.38		

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'79	$ 2,395	$ 2,330	$ 2,160
Gross National Product (1972 Dollars)*	3rd Q'79	$ 1,434	$ 1,422	$ 1,407
Percent Change, Annual Rate	3rd Q'79	3.4%	—2.3%	3.5%
Change in Consumer Prices (all urban consumers)*	Oct. '79n	12.0%	13.2%	9.6%
Change in Producer Prices*	Oct. '79	12.0%	16.8%	9.6%
Civilian Employment (Thousands of Persons)†	Oct. '79	97,293	97,513	95,241
Unemployment as % of Civilian Labor Force†	Oct. '79	6.0%	5.8%	5.8%
Personal Income*	Oct. '79	$ 1,975	$ 1,959	$ 1,781
Leading Indicators Composite Index (1967=100)†	Sept. '79	141.3	140.2	142.9
Industrial Production Index (1967=100)†	Oct. '79	152.5	152.3	149.7
Net Change in Consumer Instalment Credit†	Sept. '79	$ 4.45	$ 2.45	$ 3.68
U.S. Merchandise Trade Balance†	Oct. '79n	—$ 2.02	—$ 2.83	—$ 1.95
Plant and Equipment Expenditures*	4th Q'79	$179.56(a)	$174.74(a)	$163.96
Private Housing Starts (Thousands of Units)*	Oct. '79	1,760	1,911	2,054
New Construction Expenditures*	Sept. '79	$ 235.8	$ 232.4	$ 215.3
Total Business Inventories†	Sept. '79	$ 417.3	$ 416.9	$ 369.2
Total Business Sales†	Sept. '79	$ 297.1	$ 292.9	$ 260.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (11/21/79)	92,862	+1,481	— 1,776
New York City (11/28/79)	20,056	+ 249	— 8,874
Commercial Paper (11/21/79)	111,016	+ 756	+28,331

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/21/79)	151,945	— 182	+20,948
New York City (11/28/79)	44,838	— 498	+ 6,683
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/21/79)	386,184	—1,724	+49,969
New York City (11/28/79)	86,655	— 768	+ 9,852

SECURITY MARKETS

	Friday 11/30/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	11.46%	+ .11	+ 2.61
180-Day Bills (Discount Basis)	11.45	+ .03	+ 2.32
Longest Bills (Discount Basis)	10.86	— .05	+ 1.57
12⅛s 11/30/81	101.10	+ 17/32	
11⅝s 5/15/83	103.2	+ 1-2/32	
10¾s 11/15/89	102.8	+ 25/32	
10⅛s 11/15/94	99.8	+ 1	
10⅜s 11/15/09	102.24	+ 1-9/32	
Municipals:			
Bond Buyer—20 Bond Index* (11/29/79)	7.26%	— .12	+ .97
Blue List Total ($ Million)	$ 683	—$ 132	—$ 114
30-Day Visible Supply ($ Million)	$1,644	+$ 375	—$ 461
Total	$2,327	+$ 243	—$ 575
Corporates:			
Moody's Aa Composite (11/29/79)	11.06%	— .27	+ 1.84
Money Mgr.—30-Day Supply ($ Million)	$ 849	—$ 868	—$ 464
Stocks:			
Dow-Jones Averages			
Industrials	822.35	+ 10.58	+ 10.43
Transportation	248.49	+ 4.82	+ 31.89
Utilities	107.61	+ 2.67	+ 7.64
65 Stocks	294.34	+ 4.96	+ 16.65
Standard and Poor's 500 Stocks	106.16	+ 2.37	+ 9.88
N.Y.S.E. Composite Index	60.71	+ 1.05	+ 6.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	39,386	+ 7,263	+17,282

*46% Taxable Equivalent 13.44%

INTERNATIONAL RATES

	Friday 11/30/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	12.88%	12.25%
1 month	13.75	13.50
3 months	14.38	14.50
6 months	14.25	14.50
1 year	13.00	13.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	n.a.	11.85%
Long Term (10 to 15 yrs.)	n.a.	11.75
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03559	.03496
Canada	.8544	.8498
France	.2455	.2416
Germany	.5776	.5676
Italy	.001222	.001215
Japan	.004008	.004010
Mexico	.04372	.04374
Netherlands	.5182	.5082
Switzerland	.6211	.6042
U.K.	2.1945	2.1600

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